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FISCAL IMPACT STATEMENT

LS 7854

BILL NUMBER: SB 507

NOTE PREPARED: Jan 18, 2007

BILL AMENDED:

SUBJECT: Employer Tax Credits for Employee Training.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a tax credit against state tax liability for expenditures made by an employer to pay or reimburse an employee for the costs of basic skills education and training.

Effective Date: Upon passage; July 1, 2007.

Explanation of State Expenditures: *Basic Skills Training Course Tax Credit:* Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new tax credit for basic skills training course expenses. The bill also requires the DOR to certify to the DWD within 90 days of the end of the fiscal year the name of each taxpayer awarded a tax credit and the total amount credits claimed on tax returns processed during the preceding fiscal year. (Note: The bill makes this requirement of the Department of Insurance with respect to credits against the Insurance Premiums Tax.) The DOR's current level of resources should be sufficient to complete these tasks.

Department of Workforce Development (DWD): The bill establishes the Basic Skills Training Course Tax Credit Program to DWD. The tax credit is for an employer's expenses for tuition and fees paid for an employee to obtain basic skills training. The bill requires the DWD to determine qualifications for receipt of tax credits and for determining the tax credit amount a taxpayer may receive. The bill also requires the DWD to audit each taxpayer to ensure that his or her employees have completed the requirements that qualify the taxpayer for the tax credit.

Tax Credit Cost Reimbursement: The bill requires the DWD to make annual transfers from two funds to the state General Fund to reimburse the cost of the tax credit. The bill limits the amount of tax credits that may

be awarded in a fiscal year to \$5.0 M. The bill requires an amount equal to 50% of the credit cost to be transferred from the Skills 2016 Fund to the state General Fund, with the remaining 50% of the credit cost to be transferred from the Special Employment and Training Services Fund. A total of \$2.5 M could potentially be required from each fund in FY 2009 and FY 2010 if the \$5.0 M annual credit award limit is reached in FY 2008 and FY 2009. (See *Explanation of State Revenues* for a discussion of the tax credit and its revenue impact.) The FY 2006 ending balance in the Skills 2016 Training Fund was about \$50.0 M, with the balance as of December 31, 2006, totaling about \$45.8 M. The FY 2006 ending balance in the Special Employment and Training Services Fund was about \$25.4 M, with the balance as of December 31, 2006, totaling about \$25.5 M.

Training Program Funding: The bill authorizes the Commissioner of Workforce Development to allocate \$2.0 M annually from the Special Employment and Training Services Fund for competitively procured training programs in furtherance of workforce development. The bill authorizes the Commissioner to make the annual allocation beginning in FY 2008 and ending in FY 2011. The amount actually allocated by up to the \$2.0 M annual limit and the types of training programs that the money would fund would be at the discretion of the Commissioner.

Explanation of State Revenues: *Basic Skills Training Course Tax Credit:* This bill establishes the nonrefundable Basic Skills Training Course Tax Credit which could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Sales and Use Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit is effective only for tax year 2008. The bill also limits the total credits allowed to \$5 M each fiscal year. Potentially, the DWD could certify \$5 M of credits in two fiscal years:

1. FY 2008 (applicable to training expenses the first half of tax year 2008.); and
2. FY 2009 (applicable to training expenses the second half of tax year 2008).

The revenue loss from the tax credit could potentially begin in FY 2008 if the DWD certifies credits early in 2008 and credit recipients adjust quarterly estimated payments.

Background: The bill establishes a tax credit for employers approved by the DWD that pay tuition costs for basic skills training obtained by an employee. The bill requires, in addition, that the employee achieve a GED or high school equivalent degree or a skill level gain in mathematics, reading, or computer literacy. The tax credit may be claimed against the AGI Tax, Sales and Use Tax, Financial Institutions Tax, and Insurance Premiums Tax liability. The credit is equal to the lesser of 50% of the employer's tuition expenses, \$500, or the balance of credits that have not been applied toward the costs of another basic skills training course. The bill limits the total amount of credits an individual employer may receive in a year to \$50,000, and limits total credits awarded by DWD in a fiscal year to \$5.0 M. The aggregate limit would provide for maximum \$500 tax credits for expenses relating to 10,000 employees.

The tax credits are nonrefundable and may not be carried back or carried forward. If the taxpayer is a pass through entity and does not have a tax liability, the credits could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Since the credits are effective beginning in tax year 2008, the fiscal impact likely would not commence before FY 2009. However, some taxpayers could potentially reduce quarterly estimated payments affecting FY 2008 revenue.

Sales Tax revenue is distributed to the Property Tax Replacement Fund (50%), the state General Fund

(49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). Revenue from the Individual AGI Tax is distributed to the state General Fund (86%) and the Property Tax Replacement Fund (14%). Revenue from the Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development; Department of State Revenue; Department of Insurance.

Local Agencies Affected:

Information Sources:

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